# REPORT ON SPECIAL INVESTIGATION OF THE BETTENDORF COMMUNITY SCHOOL DISTRICT'S METRO FEST

FOR THE PERIOD MAY 8, 2001 THROUGH MAY 16, 2007

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## NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants
(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Fax (641) 791-9284

To the Board of Education of the Bettendorf Community School District

As a result of irregularities discovered in the account of Metro Fest which is a consortium of schools for a choral music festival, in which the Bettendorf Community School District is a participating school and at your request, we conducted a special investigation of the Metro Fest financial records for the period of May 8, 2001 to May 16, 2007. Based on information obtained from interviews with personnel of the Bettendorf Community School District we performed the following procedures:

- 1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- Reviewed copies of the separately maintained bank account submitted to the District's Business office by District employees and corresponding document for deposits and checks.
- 3) Examined available documentation for selected disbursements from the separately maintained Metro Fest account to determine if they were for appropriate purposes, properly supported and approved.
- 4) Interviewed persons who had interaction with the Metro Fest program.
- 5) Interviewed the activities director, high school principal and activities accountant with regard to the Vocal Music activities.

These procedures identified \$1,997.00 of improper disbursements and \$15,259.97 of estimated undeposited collections from the Metro Fest account. We were unable to determine whether additional amounts may have been undeposited during this time period because adequate receipts were not available. Our findings and recommendations are presented in the Investigative summary and Exhibit A of this report.

The procedure described above does not constitute an audit of the financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures or had we performed an audit of the financial statements for the Bettendorf Community School District in accordance with U.S. generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Scott County Attorney, and the Auditor of State.

We would like to acknowledge the assistance and many courtesies extended to us by the personnel of the Bettendorf Community School District during the course of the investigation.

Nollo Common & Johnson, PC

December 19, 2007

#### **Investigative Summary**

#### **Background Information**

The Bettendorf Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education. The district, together with other school districts, participates in an area produced music performance, locally known as Metro Fest. The participants are from several of the surrounding schools and the schools provide time away from classes, and transportation to attend the event. The Metro Fest choral event has been produced for 18 years and includes 700 to 1000 students in grades 9-12 annually. Although through the years some of the participating schools have changed, it has continued as an event with about seven schools participating annually.

A formal organization, such as a 28-E agreement or 501(c) 3 was not established for the Metro Fest. The financial records were maintained by Deb Ragan, Music Director at Bettendorf Community School. The Metro Fest records, however, were not included in the district records. The deposits and disbursements for Metro Fest were made from an account named Metro Fest. Monthly statements for the account had originally been mailed to the high school but the address was changed to Ms. Ragan's personal address sometime between May 19, 2004 and June 16, 2004.

The Metro Fest has a performance in October each year. The admissions collected for the event are used to pay for directors, accompanists, piano movers, and other costs associated with the event. The profit from the event is carried over to the next year.

In December 2006 the balance remaining in the Metro Fest account, \$1,532.76 was distributed to the participating schools. Each school received \$218.95.

Questions arose when the records were to be turned over to North Scott Community School District for maintenance of the records. Bettendorf administrators requested the records from Ms. Ragan. Ms. Ragan was not forthcoming with the records. Eventually, some records were obtained by requesting copies of bank statements of the account as well as requesting copies of invoices and non contemporaneous receipts for payments made. The Bettendorf administration requested a special investigation after review of the records.

#### Findings

We reviewed the bank records for the period of May 8, 2001 to May 16, 2007. The bank statements included withdrawals from the Metro Fest bank account from local ATM machines totaling \$1,500. (See appendix 1)

We noted that there was a check written to cash for \$400. There were no support documents available noting the purpose or intent of the \$400 check written 8/6/2001.

The maintenance of the bank account resulted in overdraft fees from the bank. The total overdraft fees totaled \$97. (See appendix 2)

We conducted several interviews with personnel who indicated that no prenumbered tickets to the Metro Fest were used and money from the admissions was turned over to Ms. Ragan. Ms. Ragan was responsible for depositing and recording the admissions. In addition, since the practice and performance ran over dinnertime, food was sold to participants. Each participating school was asked to preorder pizza, pasta and pop, which was then ordered. At a minimum, amount of food sales should have covered the cost of the purchase price since the quantity of food needed was determined prior to the ordering. The price of the pizza per slice was \$1.50 for 2001-2003 and \$1.75 per slice for 2004-2006. The pop was sold at \$0.50 per can. Ms. Ragan was responsible for both the admissions and food deposits. The amount of money collected for food sales is not available since the food was paid for with checks as well as cash. The cash collections did not identify a breakout between tickets and food.

The invoice from Happy Joes for the 2006 Metro Fest indicates that the prices paid for each pizza slice, before they allowed a 25% discount was \$1.02, considering the discount the cost was \$0.80 per slice. The pop, purchased from Hy-Vee was purchased at \$0.25 per can. The expected revenues from the sale prices would be \$4,638. The price paid for food was \$2,478.35. It would be a reasonable expectation that at least the cost was received, since as previously noted the amount of food was ordered based on pre-orders. Similar information is not available for previous years.

The occupancy of the gym where the Metro Fest took place is shown as 3000 per District's records. We conducted interviews which indicated that the gym was packed, with people sitting on chairs on the floor in addition to the bleachers. Half of the gym was used for the participating vocalists. The other half, 1500 should have paid for a ticket to see the performance. The estimated 1500 only includes the occupancy of the bleachers and does not include the chairs on the floor. The ticket price was \$3.00 for adult and \$2.00 for student or senior citizen. Calculating at an average price of \$2.50 per ticket the expected revenues from tickets would be \$3,750 annually, conservatively.

The deposits made were not separated by admissions and food sales. The total deposits compared to the expected collections indicate a shortage of \$15,260 based on expected revenues. (See appendix 3) This calculation is an extremely conservative estimate. Additional records separating deposits between ticket sales and food sales as well as an accounting of the sales would be necessary to calculate a more complete amount of undeposited collections.

Ms. Ragan did write and deposit checks, drawn on her personal account, into the Metro Fest account in the amount of \$660.02. In addition when the administration questioned the ATM withdrawals she wrote a \$200 check, dated April 20, 2007, which the district has not deposited. (See appendix 4)

During the 2006 Metro Fest the accompanists and conductors were paid with cash, based on subsequently obtained receipts verifying cash payment. Statements from conductors and accompanists were received dated April 18, 2007 for the 2006 Metro Fest. These statements were requested by Ms. Ragan to document expenses paid. The amount of cash payments for the 2006 Metro Fest was \$1,000. The conductors and accompanists had not in previous years been paid in cash.

#### Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by Metro Fest to process collections and disbursements. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be discovered within a reasonable time during the course of normal operations.

The Metro Fest is considered part of the Bettendorf Community School. However the separate accounting of the Metro Fest has not been subjected to the District's control processes and procedures. Based on our findings and observations detailed below, the following recommendations are made to strengthen the School's internal controls.

(A) Establishment of Accounts-The district's music sponsor stated in documents that the separately maintained bank account was established because Metro Fest was not considered a school event. The District management views that the Metro Fest was a school sponsored event and that the record keeping should be maintained by the District in accordance to the policies and procedures that have been established for all District funds.

**Recommendation**-The establishment of an entity or organization should be evaluated to determine the appropriate accounting. Metro Fest and other organizations or activities the district is involved with should be evaluated to determine if it is District transactions or an outside organization.

The District should establish policies and procedures to ensure all bank accounts associate with the District and District activities are reviewed and approved by the Board prior to their establishment.

The procedures should include criteria to be used by the district to determine if a separate account is necessary, if the activity would more appropriately be included in the District's Student Activity Fund or if the activity is that of an outside entity and is not a part of the District. In establishing these criteria, the district should consider the nature of the activity and the planned use of the funds. Section 291.6 of the Code of Iowa requires the Board secretary to keep an accurate and separate account of each fund with the treasurer, an accurate

account of all expenses incurred and present all expenses to the Board for audit and payment pursuant to section 279.29 of the Code of Iowa. Section 291.12 of the Code of Iowa requires all District funds be received by the District Treasurer.

<u>Response</u> - The District has control procedures which were ignored by this individual.

Conclusion - Response accepted.

- (B) <u>Lack of Documentation</u> The record keeping as previously identified has not been in accordance with the District policies and procedures. The Metro Fest was operated as a separately maintained bank account, external to the District records, and did not maintain sufficient accounting records. Documentation of paid invoices and receipts were not prepared or were not retained to adequately support the financial activity in the separately maintained bank account. We identified the following concerns:
  - 1) Record Retention- Invoices, claims or other supporting documentation had to be recreated as records were not maintained and documentation was not retained.
  - 2) <u>Bank Records/Check Register</u> Bank statements and deposit slips were not retained. Copies of certain bank statements were obtained from the bank for our review. Check registers were not available and not adequately maintained. Bank balances were not reconciled to book balances, resulting in overdrafts.
  - 3) <u>Commingling of personal assets</u>- Personal money was placed in the account when the cash balance was low.

**Recommendation**- Controls over the accounts should be properly segregated. Procedures should be implemented to ensure proper accounting records are kept for all district accounts, as follows:

- 1) Record Retention Invoices, claims or other appropriate documentation should be retained to support all disbursements. The district policy 708 documents required record retention. The district should review the policy and provide the policy and procedures to personnel assigned functions relating to the documents.
- 2) <u>Bank Records/Check Register</u>- Bank records, including bank statements, duplicate checks and deposits slips should be retained on all accounts so that financial records can be kept and proper bank reconciliation should be prepared timely.

3) <u>Commingling of Personal Assets</u>- Personal money should never be used in District checking accounts. Personal withdrawals or reduction of deposits should not be allowed. Checking accounts that are kept at the District office should not be available for personal use.

<u>Response</u> - The District has control procedures which were ignored by this individual.

<u>Conclusion</u> - Response accepted.

(C) <u>Admissions Procedures</u> – Prenumbered tickets were not used for the Metro Fest admissions. Receipts were not deposited intact; expenses were directly paid from the cash receipts collected. In addition the collections were not identified between the admission and food sales making it difficult to determine the profit from each part of the function.

<u>Recommendation</u>-. The events that are sponsored by the District should follow the District controls. The District should communicate the internal control procedures for handling cash for all activity events. At a minimum these procedures should include the following:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold and the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number, times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Activities Director or designee responsible for the "accounting" function at the event.
- h. The Activities Director or designee should be required to take the cash to the night depository at the bank or, at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit

on the next working day. District procedures should prohibit individuals from taking cash collections home.

- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.
- k. Controls over the accounts should be properly segregated. Procedures should be implemented to ensure proper accounting records are kept for all district accounts.

**Response** - The District has control procedures which were ignored by this individual.

**Conclusion** - Response accepted.

(D) <u>ATM Card</u> – We noted that the Metro Fest account had an ATM card which was affiliated with the bank account. Ms. Ragan used the card on numerous occasions withdrawing \$1,500, from the period between May 8, 2001 through May 16, 2007.

**Recommendation** – Although the account was maintained as a separate personal account of Ms. Ragan, as previously identified the account should have been included in the District financial records. The ATM card is not an appropriate means of payment or withdrawal on the account as the expenditures are not available for approval prior to payment.

**Response** - The District policy is not to allow the use of Debit/ATM cards. This individual ignored policy.

**Conclusion** - Response accepted.

### Report on Special Investigation of Bettendorf Community School District Metro Fest

# Summary of Findings For the period May 8, 2001 through May 16, 2007

Description	Appendix/ Page Number	Amount
Improper Disbursements:		
ATM Withdrawals	Appendix 1	\$ 1,500.00
Questionable Disbursements:		
Checks written to cash	Page 4	400.00
Overdraft bank charges	Appendix 2	97.00
Improper and Questionable Disburs	1,997.00	
Undeposited Collections:		
Admissions/food sales	Appendix 3	15,259.97
Less: Checks received from Deb Ragan Invoices paid with undeposited rec	Appendix 4 eipts	860.02 1,000.00
NET		\$ 15,396.95

## Appendix 1

### Report on Special Investigation of Bettendorf Community School District Metro Fest

### ATM withdrawals For the period May 8, 2001 through May 16, 2007

Date	Location	•	Amount
	101 W River Road Davenport, IA	\$	30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		30.00
	101 W River Road Davenport, IA		60.00
	101 W River Road Davenport, IA		60.00
	101 W River Road Davenport, IA		60.00
	101 W River Road Davenport, IA		100.00
12/3/2002	101 W River Road Davenport, IA		30.00
	Rhythm City 1st Davenport, IA		50.00
11/3/2003	Rhythm City 1st Davenport, IA		10.00
11/17/2003	Rhythm City 2nd Davenport, IA	-	20.00
11/17/2003	Rhythm City 1st Davenport, IA		20.00
11/17/2003	Rhythm City 2nd Davenport, IA		40.00
11/17/2003	Rhythm City 2nd Davenport, IA		40.00
11/17/2003	Rhythm City 1st Davenport, IA		40.00
11/17/2003	Rhythm City 2nd Davenport, IA		50.00
11/17/2003	Rhythm City 1st Davenport, IA		50.00
11/17/2003	Rhythm City 1st Davenport, IA		100.00
1/5/2004	Rhythm City 2nd Davenport, IA		20.00
1/20/2004	Rhythm City 2nd Davenport, IA		10.00
1/20/2004	Rhythm City 1st Davenport, IA		10.00
11/25/2005	Rhythm City 2nd Davenport, IA		50.00
11/25/2005	Rhythm City 2nd Davenport, IA		50.00
11/25/2005	Rhythm City 2nd Davenport, IA		50.00
	Rhythm City 2nd Davenport, IA		50.00
12/27/2005	Rhythm City 1st Davenport, IA		20.00
1/9/2006	Rhythm City 1st Davenport, IA		20.00
1/12/2006	Rhythm City 3rd Davenport, IA		20.00
	Rhythm City 2nd Davenport, IA		40.00
	Rhythm City 1st Davenport, IA		60.00
	3624 Division St Davenport, IA		100.00
	•	\$	1,500.00
		1	

## Report on Special Investigation of Bettendorf Community School District Metro Fest

# Overdraft fees For the period May 8, 2001 through May 16, 2007

Date Description	An	Amount		
12/12/2002 Overdraft fee	\$	29.00		
12/16/2002 Overdraft fee		5.00		
12/17/2002 Overdraft fee		5.00		
· —· · ·		29.00		
11/21/2003 Overdraft fee		29.00		
1/6/2004 Overdraft fee	\$	97.00		

## Appendix 3

## Report on Special Investigation of Bettendorf Community School District Metro Fest

# Undeposited Collections For the period May 8, 2001 through May 16, 2007

Year	Cash Deposits	Checks deposited for food	Total Festival Deposits	Expected Food Sales	Food Purchases	Expected Ticket Sales	Minimum Expected Deposits	Net Difference
2001 2002 2003 2004 2005 2006	1,257.50 1,876.00 1,950.30 1,505.35 2,371.25 1,856.25	893.25 295.25 668.25 1,003.75 1,277.25 2,608.50	2,150.75 2,171.25 2,618.55 2,509.10 3,648.50 4,464.75	4,638.00	1,148.04 675.04 1,040.90 1,116.50 1,704.39	3,750.00 3,750.00 3,750.00 3,750.00 3,750.00 3,750.00	4,898.04 4,425.04 4,790.90 4,866.50 5,454.39 8,388.00	\$ (2,747.29) (2,253.79) (2,172.35) (2,357.40) (1,805.89) (3,923.25) \$ (15,259.97)

#### Appendix 4

## Report on Special Investigation of Bettendorf Community School District Metro Fest

Deposits and check by Ms. Ragan For the period May 8, 2001 through May 16, 2007

Date	А	Amount	
12/17/2002	\$	318.02	
1/8/2004		60.00	
2/20/2004		180.00	
11/12/2004		102.00	
4/20/2007 check held by district		200.00	
7/20/2001	\$	860.02	